Pricing For Profit
Strategies for Small Volume & Custom Builders

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Profitable pricing strategies are not a “one size fits all” proposition. Each builder and construction project is unique. To properly price your work, you must have a firm understanding of your overhead costs, your projected volume, and how much risk you are willing to take in order to achieve your profit goals. Your pricing strategies need to take into account the contract types you use, project size and complexity, location, market conditions, and even the customer’s disposition & personality.

Step One – Calculate Your Overhead
- Salaries & burden
- Vehicles & equipment
- Office expenses, phone, fax, cell phones, internet, postage, rent
- Insurance, legal, accounting, licenses
- Interest expense (Operating LOC)
- Marketing
- Association and other memberships, dues, subscriptions
- Education
- Travel, entertainment, misc.

Step Two – Project Your Sales & Production Capabilities
- Work in the pipeline (signed, sealed, un-delivered)
- Reputation / sales ability
- Historical volume
- Land position, lot availability
- Market niche
- Typical building cycle time
- Economy and interest rate environment

Step Three – Decide on Your Net Profit Goal
- Adjust for over or under compensation of owner(s)
- Industry averages
- Competition
- Focus on $ not just %
Step Four – Calculate Average Gross Margin Required

- Mark-up vs. Margin
- Evaluate risks
- Calculate your break-even point
- Examine volume ranges and effect on margin
- Different margins for different contracts
- Consider different margins for different types of jobs
  - Complexity of home / project
  - Size / selling price
  - Location
  - Site conditions
  - Features & finishes
  - Client disposition / personality
- Focus on the $$$ generated, not just the %

Pricing your projects is as much an art as it is science. Each home is unique, each customer is unique, and each builder is unique. Customize your pricing to fit your unique market position.

About Tom Stephani

Tom Stephani is president of Stephani Enterprises, Inc. and Custom Construction Concepts, Inc. SEI develops commercial & residential land and constructs light commercial projects along with custom homes & traditional neighborhood infill projects.

Tom is also a nationally recognized speaker and trainer on issues relating to the residential construction industry. He also writes extensively for industry magazines such as Custom Builder Magazine. Tom currently serves on the National Association of Home Builder’s (NAHB) Custom Builder Committee, and is the Vice Chairman of the National Sales & Marketing Council. He is a Life Director of NAHB. On the local front, Stephani was president of McHenry County Home Builders Association in 1999, has chaired several committees, and was named its Builder of the Year in 2000 and 2002.

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